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AUTHOR Amlung, Susan, Ed.
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ABSTRACT

This report examines the Federal and State financing of New York City's special education programs in the public schools and documents the inadequacies of current funding. The report seeks to determine the extent of the Federal government's involvement in financing special education. In addition, New York State's allocation of funds for special education is analyzed and suggestions are offered concerning changes in the finance structure which would benefit New York City's handicapped students. Recommendations for New York City include how additional revenues for special education might be obtained. A survey of 11 large cities in this report, which focuses on the fiscal impact of the Education for All Handicapped Children Act of 1975 (PL 94-142), demonstrates that New York City is not unique in its dilemma. The report maintains that it is the responsibility of all levels of government to share the costs of special education. (Author/APM)

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SPECIAL EDUCATION FUNDING:

A Story of Broken Promises

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Educational Priorities Panel
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Helen C. Heller, *Coordinator*
9a Madison Avenue
New York NY 10015
(212) 625-0563

INTERFACE, Staff
251 Park Avenue South
New York NY 10010
(212) 674-7121

The Educational Priorities Panel

95 Madison Avenue
New York, NY 10016
(212) 685-3563

Helen C. Heller, Coordinator

Advocates for Children
Alliance for Children
American Jewish Committee, New York Chapter
ASPIRA of New York
Association for the Help of Retarded Children
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Management Staff - INTERFACE

251 Park Avenue South
New York, N.Y. 10010
(212) 674-2121

Stanley Litow
David Lebenstein
Norman Chung
Robin Willner
Susan Amiura
Carla Precht

Support Staff
Sandra Moore
Randy Smith

EDUCATIONAL PRIORITIES PANEL
95 Madison Avenue
New York, NY 10016
212 685-3563

Staff: INTERFACE
251 Park Avenue South
New York, NY 10010
674-2121

SPECIAL EDUCATION FUNDING:

A STORY OF BROKEN PROMISES

February, 1981

Project Director: Robin Willner
Consultant: Lynne Weikart
Editor: Susan Amlung

SPECIAL EDUCATION FUNDING:

A STORY OF BROKEN PROMISES

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INTRODUCTION

In the past decade, the civil rights of people with handicapping conditions in every aspect of life have been expanded and protected by statutes and court decisions. This national commitment to improve opportunities for the handicapped people has had a particularly far reaching effect on our education system.

The Educational Priorities Panel supports the provision of an education budget sufficient to meet the individual needs of all public school children in New York City. Children with handicaps have, for too long, not been accorded the full opportunity to become productive citizens that all children deserve. Whatever the dominant political mood of the nation, fundamental rights remain immutable, and it is our obligation to protect them.

The passage of the Education for All Handicapped Children Act of 1975 spelled out constitutional requirements for state and local educational agencies to provide a free and appropriate public education for every handicapped child. Although certain state laws previously guaranteed some services to handicapped children without question the federal legislation has provided important new educational opportunities for these children. The Bureau of Education for the Handicapped estimated that over 4.1 million handicapped children will be served nationwide in 1980; this represents an increase of 43% (1.2 million) from 1975. In New York City the official October 1980 census in NYC's public schools was 74,083 handicapped students being served, an increase of more than 87% from 39,545 in the 1975-76 school year.

It is the responsibility of all levels of government to share the resulting costs. Unfortunately, the federal government, while mandating valuable services to children with handicapping conditions, has not fulfilled its financial commitment to local school districts faced wtih paying for these services.

Similarly the state aid program contains inequities which shortchange handicapped students. Hence, the fiscal responsibilities for this enormous increase in services for handicapped students have been placed primarily with the local school district.

As the numbers of handicapped children in special programs have mushroomed, so have the costs. Because of state mandated small class sizes and federally mandated related services, a recent study by the State Education Department calculates that it costs more than three times as much to educate a handicapped student as a nonhandicapped student. In Fiscal Year 1980 the New York City Board of Education spent $6,141 per handicapped student as compared to $2,896 per average non-handicapped pupil cost. With the increase in the handicapped population served, there has been an 80% increase in tax levy dollars for special education since 1975. This expansion has occurred during a time of drastic fiscal retrenchment for New York City within which our educational system has had to absorb a large proportion of budget cuts.

Because of this situation, the Educational Priorities Panel, a coalition of 25 parent and civic organizations which serves as an independent fiscal watchdog over NYC's Board of Education, has prepared two studies on special education. This first study examines the federal and state financing of NYC's special education programs in the public schools and documents the inadequacy of this funding. As part of this study, EPP has explored the costs of special education in 11 large cities and demonstrates that NYC is not unique in its increased costs. A study to be released later this spring examines the expenditures of special education at the local level. In this first study on federal and state financing, EPP has sought to determine:

1) To what extent is the federal government financing special education?

2) What is the fiscal impact of PL 94-142 on cities with large school populations?

3) What are the problems with New York State's financing of special education and how can this finance structure be redrawn for the benefit of NYC's handicapped students?

4) What actions can New York City take to enhance its revenues for education of special children?

Competition for scarce resources among different school populations can only have a destructive effect on our schools and on the children. While adequate funding for all children's learning is necessary, the implications of inadequate funding for special education are particularly troublesome and poignant. Therefore, the EPP has presented this report in the hopes of pointing out new directions for the federal, state and local governments and the Board of Education to provide better services for these children.

Summary

1. The Federal Role

A. Federal Funding (pp. 5-8)

While the federal Education for All Handicapped Children Act of 1975 (PL 94-142) requires that local school districts identify students who are handicapped and provide them with a range of long needed services, the federal government has not fulfilled the funding commitments of that law as expressed in its funding authorization level. Because Congress has appropriated funding for only 12% of the average nationwide cost of educating a non-handicapped child, instead of the 30% authorized by the Act, New York City lost $20 million in 1981. Next year, when the Act's authorization level rises to 40%, if appropriation levels remain the same, the potential loss is even greater. Furthermore, the federal funding formula discriminates against high-cost areas like New York. As a result the city absorbs 59% of the special education budget, while the federal government pays for only 8%. (The rest is funded by the state).

B. Comparison with other large cities (pp. 10-14)

The growth in expenditures for special education combined with the low federal level of support for these expenditures is a budget phenomenon afflicting other large cities as well. In fact New York did exceptionally well in controlling costs in the four years between 1974 and 1978. Despite an overall enrollment decline that was less than average for the 11 cities surveyed, and an increase in special education enrollment that was higher than average, New York City had the smallest increase in overall education expenditures (5.7%) and the third lowest increase in special education expenditures (37%). The average 11-city increase in special education costs over four years was 63.5% while total school expenditures increased an average of 23%. The larger cities had the

highest costs. PL 94-142 funding represented only 1.9% to 9.3% of these cities' special education costs.

Recommendation

The federal government should fund PL 94-142 to its authorized level. (p. 15)

2. The State Role

The State also has failed to establish an adequate and equitable aid formula for the costs of special education. Although a new formula for 1980-81 allocated $12 million or 10% more than the previous year, it actually provided fewer dollars per pupil and $34 million less than the old formula would have provided.

As a result, city spending had to increase by 47% to meet the costs of mandated services to handicapped schoolchildren.

This is a result of a formula that (a) is not based upon actual excess costs; (b) funds the prior year's pupil count at a time that the identified and served handicapped population is mushrooming; (c) uses a property wealth measure that discriminates against New York City; (d) unfairly calculates approved operating expenses per pupil; (e) utilizes inadequate weightings and (f) requires an unrealistic spending level for high cost aid.

Recommendation:

The state should adopt an aid formula based upon an accurate accounting of the excess cost of educating a handicapped child over the cost of educating a non-handicapped child. (See p. 25-27 for alternative formulas.) Eligibility levels for high cost aid should be lowered. (p. 28)

3. The Local Role

A. Student Transfers (p. 29)

The Board of Education does not adequately track handicapped students coming into the public schools from private institutions in which these students generated PL 89-313 funds of $731 per student. These funds are lost to the Board of Education if the children are not properly identified.

Recommendation: The Board of Education should refine procedures to identify former private school handicapped students. (p. 29)

B. Medicaid (pp. 30-35)

Medicaid funding is available to medicaid providers for screening, diagnosis and treatment of medicaid eligible children. Some other school districts receive such funding for providing health services or they utilize other health facilities to provide those services for the schools. Greater cooperation between city agencies (the Departments of Health and Mental Health) and the Board of Education can result in better services to children at lower costs to the schools. Current state policy discourages such service linkages but proposed legislation would facilitate interagency agreements by permitting medicaid providers to use off-site centers such as schools.

Recommendation:

Every community school district and high school should be encouraged to establish relationships with local health care facilities for the provision of screening, diagnosis and health-related services to medicaid-eligible handicapped students. The city and state should cooperate in these efforts. (p. 35)

Conclusion

It is apparent that more could be done by all levels of government -- the Congress, the State and the local Board of Education -- to generate revenues for the education of children with handicapping conditions. A shortage of funds should never be allowed to prejudice the case for necessary services or to create antagonisms between populations of children, all of whom deserve the very best we can provide.

I. THE FEDERAL ROLE

A. The Laws

Two major laws have affected public education for handicapped children--the Rehabilitation Act of 1973 (Sec. 504) and the Education for All Handicapped Children Act of 1975.

The Rehabilitation Act of 1973 was a landmark because it guaranteed basic civil rights to the handicapped. The law was a natural extension of the civil rights struggle of minorities during the 1960's. Section 504 required that any recipient of federal funds make equal opportunities available to handicapped persons or risk the loss of federal funds. The law required accessibility to every program that recipients of federal assistance offered including public school programs. However, no funding was authorized by the Rehabilitation Act.

It was PL 94-142, the Education for All Handicapped Children Act, signed into law by President Ford, that made official the federal government's commitment to the education of all handicapped children.

> It is the purpose of the Act to assure that all handicapped children have available to them...a free appropriate public education which emphasized special education and related services designed to meet their unique needs.

The Act largely codified an existing constitutional right enunciated in PARC v. Commonwealth of Pennsylvania and Mills v. Board of Education, District of Columbia.

The law delineates the responsibilities of state and local education authorities and provides that the federal government will aid the states in the financing of mandated special education services.

In order to achieve its primary purpose of assuring a free appropriate education for all handicapped children, the legislation details specific requirements with which state and local authorities must comply in order to receive federal funds. They include:

-- Full educational opportunity must be offered to all handicapped children between 3 and 21 years old by September, 1980 to the extent the state provides that education to students generally.

-- All handicapped children must be educated in the "least restrictive" environment.

-- Each handicapped child is to have an individualized education program (IEP) which is a written statement of short and long term measurable educational goals.

-- Parents and their handicapped children are to be provided with procedural safeguards to protect their due process rights; namely: parents must have access to their child's records; they must give written consent to the evaluation, placement and educational plans for their child; children must be tested in their native language.

-- Each state must submit to the federal government an annual plan explaining the priorities, policies, procedures and timetables it has developed to meet the mandates of PL 94-142.

B. Federal Funding

While requiring immediate implementation, the federal government has contributed only a small portion of revenue to the costs of educating the handicapped population in the public schools.

In New York City, federal revenues for special education during FY'81 totaled $34 million dollars out of a total revenue budget for special education of $425 million.

TABLE 1

Division of Special Education's Revenue Budget
FY 81

Revenues	Budget	% Share of the Budget
Tax Levy	$250.55 million	58.90%
State	137.11 million	32.23%
Federal	34.01 million	8.00%
Intra-City	3.68 million	0.87%
TOTAL	$425.35 million	100.00%

Source: Board of Education, Bureau of State Financial Aid and Office of Funded Programs of DSE. These revenues exclude transportation revenues and include revenues (tax-levy) for fringes. See Appendix B for details on revenue and expense budget.

As shown in Table I, the federal share of the revenue budget of the Division of Special Education (DSE) is only 8%. The city is absorbing the bulk of the costs to educate handicapped children, funding 58.90% of the budget while the state's share is 32.23%.

The major sources of federal funding to DSE are four separate pieces of legislation, two of which were not created exclusively for programs for the handicapped.

1. Title I

The first is Title I, a provision of the Elementary and Secondary Education Act of 1965 which allocates federal funding to school districts for supplemental services to low-achieving students in poverty areas. Title I is not designed specifically for handicapped students, but they may participate if they meet the eligibility requirements and can reasonably be expected to make substantial progress toward the program's objectives. Title I may not be used for mandated services. Due to the work of DSE's Office of Funded Programs, DSE has expanded

Title I services to the handicapped by almost 80% by carefully identifying and tracing those Title I eligible students who are also handicapped.(See Table 2) This pattern of strictly tracing every eligible handicapped student can be used to enhance other revenue sources, as will be discussed later.

TABLE 2

Federal Entitlement for DSE's Revenue Budget

Federal Laws	FY79	FY80	FY81
ESEA, Title I	$10,834,728	$17,763,096	$18,834,874
PL 94-142, Part B*	7,206,661	11,547,769	12,044,102
PL 89-313	582,355	384,986	375,734
VEA	1,056,750	1,034,305	1,083,369
Subtotal	$19,680,494	$30,730,156	$32,338,079
Other Titles	1,677,367	1,653,825	1,748,829
Total	$21,357,861	$32,383,981	$34,086,908

*Includes discretionary grants.

Source: Board of Education , DSE's Office of Funded Programs, Entitlements as of 1/26/81.

2. VEA

A second major source of funding is the Vocational Education Act (VEA) of 1963. PL 94-482, the 1976 amendments to the VEA, provided for vocational education for handicapped students. Federal law requires that at least 10% of VEA funds be used for the handicapped. These funds are supplemental and require a matching allocation by the local education agency.

The two remaining laws provide funds exclusively for the handicapped. They are PL 89-313 & PL 94-142.

3. PL 89-313

The third source of funding is the federal ESEA legislation, PL 89-313, which allocates funds to state-supported private schools and state-operated schools for the education of children with handicapping conditions. Created in the 1960's at a time when there was little support for educating handicapping children, PL 89-313 had a small allocation with a "follow the child" provision. If a handicapped child transfers into the public schools from a school where that child was generating PL 89-313 funds, that child remains eligible for those funds in the public school setting provided that the public school files an appropriate proposal. P.L. 89-313 is funded at $731 per handicapped student per year.

At this time, DSE has identified 514 handicapped students in the public schools who have come from state-supported and state-operated schools and are thus eligible for PL 89-313 funding. Again, these funds are supplemental; that is, the funds cannot be used in place of tax levy dollars but must be used in addition to tax levy dollars.

4. PL 94-142

The fourth source of federal funding for handicapped students is PL 94-142, the Education for All Handicapped Children Act. When Congress passed this legislation, it recognized the potential fiscal burden which the legislation imposed on local and state education authorities.

PL 94-142 reads:

> State and local education agencies have had the responsibilities to provide an education for all handicapped children, but present financial resources are inadequate to meet the special education needs of handicapped children; and it is in the national interest that the federal government assist state and local efforts to provide programs to meet the educational needs of handicapped children.

To offset the cost of these mandates, PL 94-142 has a funding provision, EHA Part B, which is inadequate and inequitable. The monies it provides are

to cover the excess cost of meeting the law's mandates, that is, the cost of educating a handicapped child which is beyond that of educating a non-handicapped child. The law stipulates that these monies are to be used to supplement, not replace, state and local funds.

PL 94-142 established a formula by which the federal government is authorized to reimburse each state a percentage of the average national expenditure per public school child for each handicapped child being served. Such a formula penalizes high cost regions such as New York City because the national average expenditure is below NYC's costs.

For fiscal year 1980, the U.S. Office of Education computes the national average annual per pupil expenditure as being $1,900 for non-handicapped children, and roughly $2,800 for handicapped children. Yet actual expenditures among the states and cities vary greatly. For example, NYC actually spent an average of $5,570 per handicapped student during fiscal year 1979. Higher costs seem endemic to large cities for handicapped and non-handicapped children alike. In a survey of eleven large cities (see next chapter for complete details) the average per pupil expenditure was $2,787 (almost as much as the national average for handicapped pupils) and the cost for educating a handicapped child averaged $3,287.

The inequity in the formula is compounded by the inadequate appropriation levels to fund the law. In fact, Congress appropriates less than it is authorized to spend in the law. These inadequate appropriations have, in fact, undermined the intent of the law and the assurances that gained political support for it. They have resulted in competition for scarce funds between handicapped and non-handicapped school populations which is detrimental to the education of all children.

Certainly, the belief of Congress was clearly that the federal government had a responsibility to fund a significant portion of the costs incurred as a result of PL 94-142. The federal funding began at 5% of the average national per pupil in 1978 and was to escalate on a yearly basis to 40% in 1982.

Table 3 shows the escalator formula as stated in the law.

Table 4 shows the actual appropriations made by Congress.

TABLE 3 *

Authorization for PL 94-142

Federal Fiscal Year	Dollars Authorized	% National Average Expenditures
1978	$ 387 million	5%
1979	$ 566 million	10%
1980	$ 1.2 billion	20%
1981	$ 2.12 billion	30%
1982	$ 3.16 billion	40%

TABLE 4 *

Appropriations for PL 94-142

Federal Fiscal Year	$ Actually Appropriated	% National Average Expenditures
1978	$ 387 million	5% (fully funded)
1979	$ 566 million	10% (fully funded)
1980	$ 804 million	12% (instead of 20%)
1981	$ 862 million	12% (instead of 30%)
1982	Unknown	Unknown

* Office of Special Education, Department of Education, Washington, D.C.

In both federal fiscal years 1980 and 1981, Congress did not authorize sufficient funding, as shown in Table 3. Instead of 20% and 30% for these two

years, Congress appropriated 12% of the average cost. This resulted in a dramatic shortfall from what was due all the states, including New York State. In 1978, the appropriations equalled $78 per handicapped child; in 1979 states received $164 per child reflecting the increased percentage. Because of the limited appropriations of 12% in FY 80, New York State received only $175 per handicapped child last year.

During federal fiscal year 1981, the states will receive $1.2 billion less than authorized, illustrated below.

TABLE 5

Authorization vs. Appropriations in FY 81
PL 94-142, EHA, Part B

	Amount Authorized (30%)	Amount Approrpriated (12%)	Loss to the States
Dollars	$2,120,000,000	$074,500,000	$1,245,500,000
Per pupil (3,802,511 handicapped pupils)	$557.53	$229.98	$327.55

Source: Office of Special Education, Department of Education, Washington, D.C.

In New York State, this means a shortfall of over $65 million while the City receives approximately $20 million less than authorized. Had the federal contribution of 40% ever been realized, it would have represented about 25% of the total financial contribution from all levels of government. At the present time, the federal share stands at approximately 8% of NYC's costs.

II. A COMPARATIVE LOOK AT BIG CITIES

A. Introduction

It is often assumed that the problems of controlling the costs of special education are unique to New York City. But the increase in expenditures for special education is taking place in many large cities, all of which are facing the same lack of federal funding.

EPP undertook a brief survey of 11 large cities to determine the fiscal impact of PL 94-142. The survey had methodological restrictions because the accounting systems differed from one city to another. However, the conclusions about other large cities' costs are similar to our own. The growth in the identified school age handicapped population since PL 94-142 has resulted in a growth rate for special education expenditures which outstrips other school costs at a time when the federal government has refused to fulfill its fiscal responsibilities.

B. Methodology

Originally, sixteen cities were randomly chosen to participate in this survey because of their size and differing geographical locations. No effort was made to choose cities with reputations for progressive special education system. Eleven cities (Atlanta, Boston, Chicago, District of Columbia, Los Angeles, Minneapolis, New York, Philadelphia, St. Louis, San Francisco, and Seattle) responded fully. The survey called for a submission from the respective state education departments of the PL 94-142 state plans for FY 1980, and copies of the state education laws. A four-page questionnaire was filled out by the city director of special education or a designee, and several telephone interviews of state and city administrators and advocacy groups were conducted.

Although the sizes of school districts varied, all the school districts served large urban areas. For FY 1979, the total student enrollment for each city ranged from 43,000 to over 900,000 students.

C. Findings

1. Since PL 94-142 was enacted in 1975, the eleven participating cities have had extensive enrollment decline (Table 6). Atlanta and Seattle were the hardest hit with more than a 24% decline in the subsequent four year period. However, St. Louis, San Francisco, and Minneapolis were not far behind.

TABLE 6

Enrollment Decline 1974-75 to 1978-79

City	1974-75 Students	1978-79 Students	Loss Students	Percent Change
Atlanta	93,900	70,000	- 23,900	- 25.4%
Boston	73,600*	67,972	- 5,628	- 7.6%
Chicago	525,000	475,000	- 50,000	- 9.5%
Los Angeles	606,842**	542,193	- 64,649	- 10.7%
Minneapolis	52,918	43,923	- 8,995	- 17.0%
New York	1,099,004	963,048	- 135,956	- 12.4%
Philadelphia	267,525	249,549	- 17,976	- 6.7%
St. Louis	90,142	72,000	- 18,142	- 20.1%
San Francisco	70,133	57,545	- 12,558	- 17.9%
Seattle	66,241	50,490	- 15,931	- 24.0%
Washington, D.C	130,685	113,858	- 16,827	- 12.9%

* Data provided for 1976-77.
** Data provided for 1975-76.

2. The average enrollment decline was almost 15% over a four year period. However, as seen in Table 7, expenditures did not decline during this period. The increase in total expenditures ranged from a low of a 5.7% increase in New York City to a high of 44.8% increase in Los Angeles. So, in regard to con-

trolling costs, New York City did relatively well. Due to the fiscal crisis, New York City was forced to hold down any increase in educational expenditures as compared to the other large cities in the survey.

TABLE 7

Growth in Total Educational Expenditures
1974-75 to 1978-79

City	1974-75 Expenditures	1978-79 Expenditures	Increase Dollars	Percent Change
Atlanta	$ 114,871,722	$ 123,884,411	$ 9,012,391	7.8%
Boston	139,536,452	187,000,000	47,463,548	34.0%
Chicago	1,108,900,200	1,243,118,034	134,217,834	12.1%
Los Angeles	1,078,875,989**	1,561,773,267	482,897,273	44.8%
Minneapolis	78,358,451*	88,948,303	10,589,852	13.5%
New York	2,817,540,000	2,978,040,000	160,500,000	5.7%
Philadelphia	486,350,000	671,943,000	185,595,000	38.2%
St. Louis	92,063,824	119,400,870	27,337,046	29.7%
San Francisco	158,000,000	177,000,000	19,000,000	12.0%
Seattle	122,171,692	148,496,598	26,324,906	21.5%
Washington, D.C	174,028,000	239,947,800	65,319,800	37.5%

* Data provided for 1976-77.
** Data provided for 1975-56.

3. Out of the ten cities reporting an enrollment change in handicapped students, six reported increases in the number of handicapped students while four reported decreases. (Table 8) This mixed finding clearly demonstrates that the impact of PL 94-142 in forcing districts to identify and place handicapped children is uneven. In general, smaller cities reported decreases while the larger cities, except for Los Angeles, reported increases. The question that remains unanswered is whether increases are due in part to the active litigation of groups representing the handicapped in some cities as compared to less activity in others.

TABLE 8
Special Education Enrollment
1974-75 to 1978-79

City	1974-75 Students	1978-79 Students		Increase Students	Percent Change
Atlanta	9,271	7,371	-	1,900	- 20.5%
Boston	8,457*	10,487	+	2,030	+ 24.0%
Chicago	42,000	50,575	+	8,575	+ 20.4%
Los Angeles	52,292**	41,715	-	10,577	- 20.2%
Minneapolis	3,847	4,594	+	747	+ 19.4%
New York	43,656	54,149	+	10,493	+ 24.0%
Philadelphia	16,962	21,444	+	4,482	+ 26.4%
St. Louis	4,240	8,376	+	4,136	+ 97.5%
San Francisco	NA	3,488		NA	NA
Seattle	3,231	2,700	-	531	- 16.4%
Washington, DC	13,038	9,209	-	3,829	- 29.4%

* Data provided for 1976-77.
** Data provided for 1975-56.
NA Data not provided.

4. Although enrollment increases (and decreases) for handicapped students were not uniform, there was an across-the-board increase in costs for special education. Every city, whatever its enrollment change, showed a substantial increase in expenditures for the handicapped. (Table 9)

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Chicago	42,000	50,575	+ 8,575	+ 20.4%
Los Angeles	52,292**	41,715	- 10,577	- 20.2%
Minneapolis	3,847	4,594	+ 747	+ 19.4%
New York	43,656	54,149	+ 10,493	+ 24.0%
Philadelphia	16,962	21,444	+ 4,482	+ 26.4%
St. Louis	4,240	8,376	+ 4,136	+ 97.5%
San Francisco	NA	3,488	NA	NA
Seattle	3,231	2,700	- 531	- 16.4%
Washington, DC	13,038	9,209	- 3,829	- 29.4%

* Data provided for 1976-77.
** Data provided for 1975-56.
NA Data not provided.

4. Although enrollment increases (and decreases) for handicapped students were not uniform, there was an across-the-board increase in costs for special education. Every city, whatever its enrollment change, showed a substantial increase in expenditures for the handicapped. (Table 9)

TABLE 9

Special Education Expenditures
1974-75 to 1978-79

City	1974-75 Expenditures	1978-79 Expenditures	Change Dollars	Percent Change
Atlanta	$ 4,676,008	$ 6,966,334	$ 2,228,326	+ 48.9%
Boston	17,566,449*	30,081,483	12,515,034	+ 71.2%
Chicago	89,531,890	170,256,356	80,724,446	+ 90.2%
Los Angeles	50,803,326**	112,353,840	61,550,514	+ 121.0%
Minneapolis	8,311,978*	9,425,000	1,113,022	+ 13.4%
New York	220,080,000	301,600,000	81,520,000	+ 37.0%
Philadelphia	42,214,000	70,078,146	27,864,146	+ 66.0%
St. Louis	5,540,854	10,483,357	4,942,503	+ 89.2%
San Francisco	6,413,292	11,718,944	5,305,652	+ 82.7%
Seattle	8,405,687	10,125,008	1,719,321	+ 20.5%
Washington, D.C	12,430,553	19,692,251	7,261,698	+ 58.4%

* Data provided for 1976-77.
** Data provided for 1975-56.

The average increase in special education expenditures for all these cities in this four year period was 63.5% while their total school expenditures increased only 23.3%.

5. This study confirms the National School Boards Association study which found that larger school districts pay the highest cost of special education. Three of the four largest cities (New York City, Los Angeles, Chicago, and Philadelphia) had expenditures over $3,200 per handicapped student in 1978-79. The exception, Los Angeles, had questionable data. (See #8 below)

6. Although special education expenditures were rapidly increasing, the

federal commitment did not. EHA Part B funding from PL 94-142 represented only 1.9% to 9.3% of the cities' special education budgets.

7. Expenditures for special education increased at the state level as well. Of the six states responding to our survey (Georgia, Illinois, California, New York, Missouri and Washington State), all but Washington reported increased spending. Special Education costs in these five states increased approximately twice as fast as total educational spending. In a four year period, the increase in special education spending in these five states ranged from 44.3% to 99.1% while total educational spending increases ranged from 15.1% ot 39.0%.

8. The most worrisome finding is that the data bases in large urban school districts are in a chaotic state. Five cities could not provide information earlier than 1977 or 1978. The actual costs of educating handicapped students is unknown; many costs were simply not recorded. School districts in some cases excluded fringe benefits and transportation although they were asked for this information. Reporting the number and types of handicapped students was as confusing as the expenditure reporting. The uniform federal definitions of handicapping conditions were not used; rather categories of handicapped students differed from city to city. The imprecise definitions of handicapping conditions leads to an inability to examine comparable services.

Conclusion

The growth of a served handicapped population in the public schools and subsequent increased costs of special education for the handicapped are not unique to New York City among other big cities. The increased costs for special

education far outstrip increases for regular education. As these costs climb, federal aid to meet these mandates does not. New York City loses at least $20 million from the inadequate appropriation of federal funds; all the states together have lost over $1.2 billion this year. As a result, it is the state and the city that must assume the financial responsibilities of special education. Such a situation fosters conflict among state, city and education officials as they struggle to determine who will pay the increased costs.

Recommendation: The federal government should fund PL 94-142 to its authorized level.

III. THE STATE ROLE

A. Introduction

Constitutionally, education is a state function in New York. The New York State constitution defines the state's role as

> "The legislature shall provide for the maintenance and support of a system of free common schools, wherein all the children of the state may be educated."*

Regardless of constitutional dictates, the state's fiscal commitment to local school districts is not spelled out. The State legislature determines the amount of state aid to all school districts each year. The city has little legal leverage to insure that the State pay a particular share of educational costs.

B. History of State Funding for the Handicapped

Before 1974, the State provided no additional funding for the education of handicapped children in big city school systems beyond what it allocated for all children. In 1974, funding for handicapped students in large cities was provided through a weighting system in the state aid formula in which non-severely handicapped students were counted twice for purposes of state aid and additional special services aid was provided for more severely handicapped students.

In 1975, PL 94-142 charged the states with insuring that federal requirements were carried out by monitoring and evaluating local programs. However, the only expenditure requirement for the state established in federal regulations was that each state had to expend an amount of state funds equal to the expenditures of federal funds under PL 94-142. Hence, the amount of funds which the state had to provide to fulfill the requirement of PL 94-142 was

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* Article XI, Section 1 of the New York State Constitution.

not fully defined. However, federal regulations specifically stated that the excess cost formula used by the federal government (based on average expenditures as described earlier) did not apply to the state; that is, the state need not limit itself to excess cost as defined by the federal government.

State officials recognized that state aid needed to be revised, since PL 94-142 had placed increased responsibilities and requirements on local school districts.* At the same time The State Education Department recognized that, although a state law had existed before the federal law, new laws for specific service requirements would have to be developed to implement the intent of the new federal law.

In December 1978, the state's funding formula for the handicapped, based upon weightings, was replaced with a temporary excess cost formula. State aid can be divided into operating aid and categorical aid (for special defined purposes and populations.) New York State allocated funds for handicapped students in both types of aid. The formula was seen as a temporary measure while the state undertook a cost study to determine the actual cost of educational programs for handicapped students. It was quite inadequate to meet the needs of handicapped students in New York City. Furthermore, it had the effect of restricting handicapped students to self-contained classrooms because it financed integrated settings at a lower rate than segregated ones.** This temporary formula was replaced in the spring of 1980 by Chapter 53 of the State Laws which contained a redesigned excess cost formula based upon a study conducted by the State Education Department. (For other possible formula choices, see Appendix A.)

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* See State Education Department's report, "Providing State Aid for the Education of Children with Handicapping Conditions based on a Study of Program Costs," November, 1979.

** For a critique of this funding mechanism, see Lynne Weikart's "Federal and State Aid Formulas for Educating the Handicapped: Blueprints for a Separate and Unequal Education," (Office of City Council President, April, 1979).

C. The Current State Aid Formula

Chapter 53 was designed to implement the State Education Department's (SED) attempts to decategorize handicapped students by providing funding based upon their need rather than their classifications of handicap. Such an attempt was in the forefront of educational thought to educate handicapped students according to individual needs rather than based upon their label. Unfortunately, SED did not recommend adequate funding for this program.

The funding formula for this redesigned program to decategorize handicapped students was originally to be based upon a state-wide cost study conducted by SED. The important finding of this study was that the cost of serving an average, full-time-equivalent, enrolled handicapped pupil was 3.17 times greater than the cost of educating a non-handicapped pupil. Based upon this finding, SED officials decided that the State had to revise its excess cost formula.

In its pure form, excess cost would be calculated on each district's actual costs of providing special programs, above and beyond the average per pupil expenditure.* Unfortunately, the excess cost formula created by SED was not in its pure form nor could it be since SED's statewide survey of excess costs failed to determine the actual costs of educating handicapped students in the local school districts. There was simply no uniform accounting system in place. Too many school districts reported costs on different bases from one another. Auditing each school district's estimates would have required a substantial increase in the workload of SED. The detailed accounting system required for tracing each school district's expenditures was seen as too expensive as well as too great an intrusion of the state in local affairs.** SED officials chose

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* New York State Special Task Force on Equity and Excellence in Education, "Research Findings and Policy Alternatives: A Second Interim Report, September, 1980.

** State Education Department, op-cit.

to revise the excess cost formula in a way that would not require actual costs for every school district.

Instead, the State moved to a formula based upon an estimate of average costs and adjusted according to the district's wealth. The ratio of a district's wealth to the average statewide district wealth is called the aid ratio. The wealthier a district the less aid it receives. Once the state moved toward wealth as a measure of the amount of aid, New York City lost funds because of the way New York State measures property wealth.*

It was commonly thought, however, that local school districts would benefit because the state also increased weightings. Instead of the 2.0 weighting for handicapped students, a higher weighting would be used that would more accurately reflect costs. In fact, three different weightings were adopted, depending on the type of service the child is provided. The formula is illustrated below.

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* This method of measuring property wealth has been declared unconstitutional at the trial court level in Levittown v. Nyquist

Table 10

How the State counts Enrollment for Determining Excess Cost Aid

1. Number of Students

A.	Total weighted Pupils with Handicapping Conditions*	97,546.54
B.	1979-80 Total Aidable Pupil Units (including handicapped pupils weighted as 1:0)	941,596.00
C.	Total Weighted Enrollment of Section 4402	6,077.50
		1,045,220.04

2. Divide 1979-80 Approved Operating Expenses (AOE) by Enrollment

$\frac{\$2,059,971,719}{1,045,220.04}$ = $1,971 AOE/Pupil limited to nearest dollar

3. Multiply AOE/Pupil by Excess Cost Aid Ratio (State-determined ratio based upon property wealth)

$1,971 x .447 = $881.03 excess cost aid per pupil

4. Multiply Aid Per Pupil By Weighted Handicapped Pupils

881.03 x 97,546.54 = $85,941,428.14**

* students in self-contained classrooms = 1.7
students in resource rooms = .9
students receiving itinerant services = .13

**The city actually received $87 million because of a slight alteration in the formula.

Source: Public Excess Cost Worksheet, N.Y.C. Board of Education, Bureau of State Financial Aid

D. The Results of the New Formula

This new formula resulted in a clear loss of aid for New York City. State aid for handicapped pupils comes in two formulas - operating aid and public excess cost formula described in Table 10. Aid in both the excess cost and the operating aid formula suffered.

1. Excess Cost

Last year New York City received $1,621 per handicapped student in the public excess cost formula; this year New York City received only $1,389 per handicapped student, despite a 52% overall increase in aid. (See Table 11.)

Table 11
Comparison of Public Excess Cost Aid
FY80 to FY81

	FY80	FY81	Change	% Change
Dollars Payable	$57,164,249	$87,108,732	+$29,944,483	+52%
Number of Pupils	35,259	62,725	+27,466	+77.9%
Aid Per Pupil	$1,621	$1,389	-$232	-14%

Source: Calculated from NYC's Board of Education, Bureau of State Financial Aid reports

When New York City municipal and education officials claim that the state shortchanged the city this year in public excess cost aid, the state cites a 52% increase in special education aid. Overlooked is the fact that a 77% increase in the number of pupils identified as handicapped and receiving special services resulted in lower per pupil aid.

2. Operating Aid: In Fiscal Year 1980 when handicapped pupils were funded mainly under the operating aid formula New York City received over $60 million in operating aid for handicapped children. In fiscal year 1981, the extra weightings for handicapped pupils were removed from the operating aid formula. As a result, New York City received only $37 million for a loss of $23 million or -39% in operating aid. (See Table 12.)

Table 12
Comparison of Operating of Aid for Instruction of Handicapped Pupils
FY80 and FY81

	FY 1980		FY 1981	
	# Pupils	Aid	# Pupils	Aid
Operating Aid for Handicapped Pupils				
1. Aid generated as regular pupil	48,883	$28,266,419	56,603	$33,395,670
2. Aid generated as handicapped	50,361	28,172,040	-	-
3. PSEN aid*	48,883	3,292,024	56,603	3,904,770
4. Secondary Aid at .15 weighting	26,988	985,095	-	-
Subtotal		$60,715,578		$37,300,440

* Aid for students with below standard reading scores.

Source: NYC's Board of Education, Bureau of State Financial Aid, November, 1980.

SED officials claim that they sought to consolidate several funding formulas for the handicapped into one because of simplicity and because of equity. In their thinking, taking aid for the additional cost of educating handicapped children out of operating aid would result in direct funding for the handicapped in one separate fund. Thus local school districts would have a clear distinction between their overall educational programs and programs for the handicapped.

The basic cost of educating the student (not the excess cost) was still accounted for in operating aid. However, the State neglected to replace the aid removed from operating aid with equal dollars in the excess cost formula.

3. Total Handicapped Aid: If all the state's instructional aid for handicapped students is included, New York City received a state aid increase of 10% from $125 million last year to $137 million year.* (See Table 13.)

Table 13
Comparison of all State Aid for Instruction
of Handicapped Students in NYC

Type of Aid	FY 1980 # Pupils	FY 1980 Aid	FY 1981 # Pupils	FY 1981 Aid
A. Total Operating Aid from table 11	N.A.	$60,715,478	56,603	$37,300,450
B. Public Excess Cost	35,259	57,164,249	62,725	87,108,732
C. Private Excess Cost	2,534	7,101,529	4,000	13,460,689
D. Learning Disabled	8,023	2,076,127	-	-
E. Diagnostic Screening	-	-	10,424	83,392
F. Low Income Supplemental	-	-	NA	337,263
G. Textbooks	-	649,000	-	855,000
Subtotal		$127,706,383		$139,145,526
H. less 4407 deduction		-2,581,751		-2,040,940
Total		$125,124,632		$137,104,586

Source: Bureau of State Financial Aid, BE, 11/80.

This $12 million state aid increase was quite paltry beside the tremendous growth in the handicapped population served. New York City had to increase its commitment by 47% of tax levy dollars to meet the increased costs of special education.

4. Pupil Count: The City bases its need for funds upon projected registers of handicapped students in the public school system. The state does not; its aid for this year is calculated on the basis of 62,804 (97,546.54 when weighted) handicapped children in New York City as of the spring of 1980. But the Board

* Transportation is not included in any state revenue figures. This report deals with instructional services only and not the transportation of handicapped students.

of Education does not serve 62,804 handicapped children. The Board of Education serves 74,000 as of November 1980 and is expected to serve more than 90,000 before the end of the fiscal year 1981.*

Because of the loss in operating aid and the lack of enough dollars in the public excess cost formula New York City lost considerable dollars as compared to the old formula. The bottom line is that if the state had kept the old formula intact New York City would have received $34 million more this year for special education.

E. How to Correct the Present Excess Cost Formula

There are two approaches to correct the basic present state excess cost formula so that New York City would receive a fairer share of excess cost. The first approach is to alter the present formula which is the route the Board of Education has recommended. The second approach is to create a new excess cost formula which more accurately reflects excess cost.

1. Current Formula Altered:

As can be seen in Table 10 on page 19, the State uses an inflated figure of enrollment to determine the approved operating expense per pupil. The State used 1,045,220 as the base year pupil count and this includes a weighted figure for handicapped pupils. This inflates the denominator; that is, from a weighted pupil count of 941,596 to a weighted count including handicapped students to 1,045,220. When a denominator is enlarged, the resulting quotient is reduced.

Small Denominator	Large Denominator
$\frac{\$2,059,971,719}{941,596} = \$2,188$ AOE/Pupil	$\frac{\$2,059,971,719}{1,045,220.04} = \$1,971$ AOE/Pupil

* For the growth in New York City's handicapped student population since 1976, see Appendix C.

The BE has asked that the pupil count of 941,596 be used rather than the larger weighted enrollment of 1,045,220 in determining AOE/Pupil. If the smaller denominator were used, excess cost aid per pupil would increase from $881.03 per handicapped pupil to $1,043.68 per pupil.* This would have resulted in an increase to $101.8 million for excess cost aid for this school year rather than the $87 million received.

The Board has also requested that the State calculate excess cost aid for each borough separately, as it does for operating aid. This method yields more aid, and is endorsed by the EPP.

Another major adjustment proposed by the BE is to increase the weightings:

	Present Weighting	Proposed Weighting
Self contained classroom	1.7	2.0
Resource room	0.9	1.0
Itinerant Services	0.13	0.15

The increase for handicapped students in self-contained classrooms is justified because the state's own study documented that the average cost of educating a handicapped student was 3.17 times the cost of educating a non-handicapped student. A 1.7 weighting plus a 1.0 weighting in operating aid results in only a 2.7 weighting, below the state's own finding, while the proposed 2.0 weighting plus the counting of a handicapped pupil in operating aid results in a more realistic 3 times the cost of educating a non-handicapped student.

The increase for handicapped students in resource rooms is justified because a resource room costs just as much as a regular classroom and is a total addition to the regular classroom service.

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* A later adjustment was made so that the formula yielded slightly more per handicapped pupil.

Itinerant services increases are justified because such a slight weighting can result in a definite fiscal disincentive. So little aid is generated by this present weighting that no incentive exists to place children in itinerant services. These increase in these weightings would result in a larger number of weighted handicapped pupils and thereby an increase in aid.

Another suggestion advocated by the Conference of Large City Boards of Education advocates basing excess cost aid on current year pupil count estimates, an option available for operating aid. This would free the city from having to carry the entire cost of new enrollees for the first year.

2. A New Excess Cost Formula:

The problem with the current formula is that it is based on an average expenditure per pupil which is neither the cost for a handicapped pupil nor the cost for a non-handicapped pupil. Therefore, it has no rational basis. Another alternative, instead of adjusting the present formula, is to create a new formula that is truly an excess cost formula. EPP proposes the following formula in place of the present one.

The new formula is based upon establishing the total cost for the nonhandicapped student population and thereby the cost of educating a nonhandicapped student. Once this is determined, the excess cost per handicapped student can be determined and thereby the total excess cost can be established. Then the state can determine what portion of that excess cost to pay.

1. Establishing cost of educating a non-handicapped student:

A. Subtract Special Education cost from total costs.

$2,059,971,729	1979-80 total state - approved operating expenses
- 247,125,065*	Special Education costs for 1979-80 (not including non-public and adult education, debt service, school buildings, transportation, and pensions).
$1,812,846,664	1979-80 approved operating expenses for non-handicapped student population.

* Source: Functional Analysis 1979-80 Board of Education, Office of Budget Operations and Review. See Appendix B for total special education costs.

B. Divide non-handicapped costs by Total Aidable Pupil Units

$\frac{\$1,812,846,664}{941,596}$ = $1,925 cost per non-handicapped student

2. Establish total excess cost of handicapped students

A. Multiply average non-handicapped per pupil cost by 3.17 (state determined ratio of handicapped/non-handicapped costs)

$1,925 x 3.17 = $6,102 total cost and excess cost of educating a handicapped student.

B. Subtract non-handicapped student cost from handicapped student cost.

$6,102

- 1,925 Excess cost of educating a handicapped child

$4,177

C. Multiply handicapped excess cost by total full time equivalent handicapped students.

$4,177 x 62,804.26 = $262,333,3954 total excess costs

The total excess costs of educating handicapped students in NYC's public schools for 1979-80 was over $262 million. The State's present excess cost formula allocates $87 million to NYC which is only 33% of the excess cost. This estimate is a conservative estimate because only those costs that are counted as approved operating expenses by the state are used. AOE does not include non-public, and adult education, debt service, school building costs, transportation and pensions.

The question to be asked of State officials is what is a fair allocation to this City? Will the state pick up 50% of this City's excess cost? Will the State pick up 100% of this City's excess cost? Even using the state's aid ratio of .447, the city would receive $118 million. This is $31 million more that it receives now.

Admittedly, given the current lack of uniform accounting practices in school districts statewide, this formula would be difficult to apply for all school districts. SED officials attempted to establish special education costs in all school districts and failed. NYC's Board of Education is one of the few school districts that actually calculates its expenses through a functional analysis of the different components which make up a budget. Comparable data are not available in other parts of this state. Given the large amount of excess costs for educating handicapped children, EPP urges the state to require uniform reporting practices. Once this is accomplished, a more accurate formula could be applied. Furthermore, the 3.17 weighting used in our suggested formula could be verified or adjusted according to a study of actual costs statewide.

3. An Interim Formula

There is also another approach that could be used as a temporary measure until new reporting procedures are established. This approach is based upon the same type of calculations on which operating aid is based. Operating aid is based upon a uniform expenditure amount or ceiling regardless of a district's actual expenditures. Similarly, there is a ceiling in the excess cost formula of $2,100, but in contrast to operating aid, districts are not aided on that basis unless their AOE/pupil (calculated as in Table 10) reaches that figure. Recognizing the difficulties in establishing an equitable AOE/pupil, EPP suggests that the formula utilize $2,100 as a uniform aidable expenditure level and then apply the aid ratio and the weightings as in the present excess cost formula. This formula would have resulted in an increase of $10.7 million during this school year.

Recommendation:

The state should adopt a formula for aiding the funding of special education that more accurately reflects the excess cost of educating handicapped children.

To implement this, uniform expenditure reporting practices should be required of all districts.

F. Excess Cost - Tier II High Cost Aid

When major changes took place in the state excess cost formula for the handicapped in the spring of 1980, little notice was aid to a "Tier II" section. Additional excess cost aid is available for handicapped children in very expensive programs in the public schools above and beyond the regular excess cost aid. Because of unrealistically high eligibility requirements, only 282 handicapped students have been claimed by local school districts in New York State for this aid as of January 1981. NYC did not claim any handicapped children under Tier II of the public excess cost formula. Few school districts are benefiting from Tier II of the excess cost aid because of the high threshold standard.

The Tier II section requires that the cost of a high cost program must be the lesser of either $10,000 in expenditures per pupil or four times the approved operating expense per pupil for the district ($1,971+4) which in NYC is $7,884. An individual worksheet must then be created for each handicapped child who qualifies under this formula. The BE would receive additional aid to cover approximately 50% of the cost above $7,884 if such costs could be documented.

The first step in documenting the high cost is to identify the most expensive programs for the handicapped. The three most expensive are Track IV, Autistic programs and the Teacher-Moms programs. Using the autistic programs, as an example, Table 14, the autistic program barely qualifies for high cost aid.

Table 14
Instructional Costs for Autistic Programs
Class ratio 1:5

Staff	Ratio	Average Salary	Class Cost	
1. Teachers				
A. Classroom	1:5	$13,100	$13,100	
B. Coverage	1:8	13,100	7,860	
C. Speech	1:20	13,100	3,275	
D. Adaptive Phy. Ed.	1:50	13,100	1,310	
2. Paras				
A. Class para	1:5	6,200	6,200	
B. Travel Trainer	1:100	6,200	62	
C. Health Hygiene	1:50	6,200	620	
3. Support Staff				
A. Guidance Co.	1:100	12,000	600	
B. Nurse	1:150	13,400	446	
C. Social Worker	1:125	NA		
D. Psychologist	1:125	NA	350	(average
E. School Sec.	1:125	9,600	384	cost of
F. Office Aide	1:125	8,000	320	evaluation)
			$34,527	

The average cost per pupil in a class of five is $6,905. Adding the 40% fringes to the classroom teacher, the average cost per pupil would be almost $8,000 which is slightly more than $7,884, the minimum needed for the Board of Education to file for high cost aid. Considering that NYC is a relatively high cost district and cannot qualify, it is obvious that the State has created a high cost formula which most school districts will not be able to utilize.

Recommendation:

Eligibility levels for high cost aid should be lowered.

IV. UNTAPPED SOURCES OF REVENUES

This section concentrates upon revenue sources which the Board of Education might pursue as possible ways to increase their revenues.

A. Following Student Transfers

If a handicapped student transfers into the public schools from a private school where the handicapped student was generating PL 89-313 funds, that child remains eligible for those funds in the public school setting if the appropriate procedures are followed. The revenue is restricted in use; it must be used for those particular handicapped students. Such funding is substantially more than PL 94-142 funding which is not fully funded as is PL 89-313. A handicapped student under PL 94-142 funding generates $175 per student while a handicapped student under PL 89-313 generates about $731 per student.

The Board of Education has identified 514 students who came from private setting and were in the public school during 1979-80 school year. However, there are many handicapped students who transferred from private institutions and have not been identified as eligible for PL 89-313 funding. This year another 250 students have been identified through DSE's efforts. A proper system must be created for the identification of these students. There are two points in the process where such tracking could occur; at the time of the original evaluation and at the time of articulation when a handicapped student is transferred to another school. At both points these students could be asked their agency history so that students from a private institution could be identified. Either the Committee on the Handicapped or the Supervisor in charge of articulation could forward this information to DSE's data bank. It would certainly pay DSE to establish a set procedure to identify every handicapped student coming from a private setting.

Recommendation:

The Board of Education should refine procedures to identify former private school handicapped students.

B. Medicaid

Title 19 of the Social Security Act provides that all medicaid eligible children under the age of 21 must be offered preventive services through a program of early and periodic screening, diagnosis and treatment (EPSDT). Some school systems with medicaid eligible school childen have used medicaid to pay for evaluation costs of children being diagnosed as handicapped. For the most part, New York City does not use medicaid or other medical funded facilities to pay for costs of diagnosing handicapped children in the public schools.

There are several models of medicaid reimbursement being used to evaluate and treat handicapped children in New York State as well as large cities. In every model program examined, the focus is not on the fiscal aspect of medicaid reimbursement; rather the model programs illustrate attempts to provide proper diagnosis and treatment for all eligible students, including handicapped children.

The first model, New Orleans school system, is representative of a good screening program. The schools provide the screening for medicaid eligible children through nurses and paraprofessionals using printouts of Medicaid eligible children. If a medical problem is found, the child is referred to a clinic or private physician for diagnosis and treatment. This service is provided to medicaid eligible children and the school district is reimbursed by the State Education Department. A similar program for preschool children is conducted in Minnesota. Minnesota has passed state legislation to enable schools to reserve Title 19 reimbursement for screening medicaid eligible children.

The second model, Hartford, is a full-range provider whether the service is screening, diagnosis or treatment. The school system employs the necessary health professionals with the key medical person being a nurse practitioner.

Each model incorporates the core evaluation of possible handicapped children as part of the medical process. There are major problems with any attempt to use medicaid reimbursement for the services of handicapped children:

1. Cost
2. Confidentiality
3. Interagency cooperation
4. Impact upon programs
5. State cooperation

1. Cost: The City pays approximately 25% of medicaid costs; the state pays 25% and the Federal government pays 50%. If medicaid funds become available for existing services, then no new costs will be incurred. In fact, savings will be realized that could be used for additional services. These existing services could be the medical evaluation of handicapped students or related services. However, if medicaid funding were utilized for a newly created program, such as City-wide screening services in the schools, then the City would have to absorb greater costs, although the amount would vary according to the utilization of present resources.

2. Confidentiality: Federal law requires confidentiality between the eligible family and the medicaid agency (provider). The Board of Education cannot identify medicaid eligible students without the parents' permission. The problems of confidentiality can be alleviated by interagency agreements between a medicaid provider and the Board of Education or the Board of Education can become a medicaid provider for specific purposes such as screening. Methods must be explored so that in sharing services confidentiality is not violated.

3. Interagency cooperation: But a third problem far outstrips the others in importance. A program of proper screening, diagnosis and treatment does not occur on a clean slate; rather, it has to happen in an arena of a multitude of existing services from several agencies. Without coordination of these agencies, children are deprived of services which they need. The Department of Health services the physically handicapped (HC-20) student in the schools. The City Department of Mental Health has developmental disabilities centers in 7 municipal hospitals, 5 volunteer hospitals and several free standing clinics, each of which sometimes does medical evaluations for handicapped children. The Board of Education has school-based support teams throughout the school system that evaluate handicapped students.

The difficulties lie in coordinating services that are already in existence and also, to go one step further, and examine the resources necesary to create a proper health program in the schools that is coordinated with other types of diagnosis conducted by other providers such as the evaluation of handicapped population. Where medical services are provided by other-than-school facilities or staff, medicaid reimbursement will, of course, go to that provider. The intent of such an approach would not be for the schools to provide additional health services, but for other agencies to receive medicaid funds for providing those services for the schools.

The problem of coordination is coming to the fore because several city agencies have begun to examine medicaid reimbursement for their school programs and the Mayor's Office of Management and Budget is also exploring the problem. The Department of Health and the Board of Education are exploring the possibilities of using medicaid funds to pay for related services, in particular, occupational and physical therapists. Such a goal is fine. The problem is that these solutions occur with small pieces of programs without an overall

plan, and major policy questions may be ignored. For example what is the proper supervisory structure for staff from another agency in a school? Who has monitoring responsibility when that service takes place in the school or outside of the school? How do other agency staff in a school relate to the staff person in charge of the school, namely, the principal?

4. Programmatic impact of interagency cooperation: Another problem is the impact agency coordination would have upon special education programs. An example of these programmatic concerns with other agencies picking up medicaid reimbursement is the growing possibility of contracting out for psychological services. This is a real possibility since school psychologists on the school based support team must now spend almost all their time in evaluations and can not do required counseling for a handicapped student. Students are losing out again on needed services. However, few school psychologists wish to be only testers and would prefer offering other services such as counseling. Contracting out for psychological services can result in a demoralized educational staff. Another issue is that a counseling session would be conducted in basically a clinical setting rather than an educational one.

The problems of cost, confidentiality, coordination of services, and programmatic concerns lead to a need for careful interagency planning at a high enough policy - making level so that the plans would be taken seriously. The Department of Health, City Department of Mental Health, the Board of Education and the Office of Management and Budget not only must be in the same room together but must also be willing to address serious questions of coordination and costs. There are models in New York State that can be drawn upon. In upstate New York, the Special Education Director of the Thompkins-Senaca Tioga BOCES, has designed a system to use the schools as outreach and screening

agents for children with health problems including handicapping conditions. Once a child is screened and identified as having a possible health problem, including ones that could impair his/her learning, the child is referred to the Committee on the Handicapped for evaluation. If a child is diagnosed as handicapped, a special committee made up of the Health Department, Social Services, Mental Health, Rehabilitation and Special Education from the BOCES examines that students' records. This committee considers all the possible funding sources for this child's services. The problem of confidentiality have been eliminated since medicaid providers are on the committee.

Another example of close coordination of agencies which results in health services to school aged children including the handicapped is the School Health Project in CSD 18. This demonstration projects links a major hospital with the schools in the district utilizing a screening model in which health teams work in the schools on screening, referrals and follow up services. The hospital becomes a major health facility for that district. Such close cooperation promotes health services for both the regular students and special education services. The Office of Health Services in CSD 18 also coordinates its screening and services with the Department of Health for dental work.

5. State Cooperation

The last problem is state cooperation. Medicaid, a federal program, is controlled at the state level through the state medicaid plan. Last year the state prevented the City's Department of Mental Health and Mental Retardation Services and the Department of Health from forming a formal linkage of shared staff at Child Health Stations. The state's refusal was based upon the difficulty of controlling double billing of clients at off-site service centers. This demonstration of a lack of state cooperation can impede linkages between the

Board of Education and other City agencies. Since New York City's educational system is not a medicaid provider according to the state plan, the BE must rely on state cooperation to facilitate interagency agreements at the local level.

There is proposed legislation for the care of the developmentally disabled now before the Assembly that would facilitate interagency agreements by clearly permitting present medicaid providers to use off-site centers.* This would include using rooms in schools. Passage of such legislation would insure that the state could not prevent hospital and clinic staff from offering services in the schools.

Another impediment at the state level is the State Education Department. State Education officials are just as interested in possible use of medicaid dollars as is the City; however, the SED has its priorities just as the City does. One SED official said, "The State's first priority is to access medicaid funding for programs in state supported schools because that's what costs us. If New York City pulled together health, rehabilitative, and education staff and created a plan that would be the basis for integrating the services, then I think there would be some action up here."

The problems of cost, confidentiality, coordination of services, programmatic concerns and state cooperation require interagency coordination at the City level. City officials could propose linkages between area hospitals, particularly those with development disabilities centers, and the local school districts and local high schools. Hospitals and clinics could be used in a time of scarce resources to supplement evaluation services and support services (such as counseling) now in short supply in the schools. Because of potential

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* Assembly bill prefiled 1/7/81, introduced by Assemblyman Connelly and referred to the Committee on Social Services.

agency conflicts, it is essential that the leadership come from the City and BE. Local school districts no matter what their skill or initiative, need help in forging these links. And the city and the Board must also encourage the state to elicit the necessary cooperation from health and mental health staff in hospitals and clinics.

To summarize, in a time of fiscal stress, the City and BE must closely coordinate the use of staff resources. The City Department of Mental Health has developmental disabilities centers throughout the City with skilled personnel who could be used to complement evaluation and support services now in the schools. In many cases the use of health personnel can be reimbursed through medicaid revenues while educational staff can not use medicaid because the Board of Education is not a medicaid provider.

Recommendation:

Every community school district and high school should be encouraged to create relationships with local health facilities for the provision of screening, disgnosis and health related services to medicaid eligible students. The city and state should cooperate in these efforts.

Conclusion

It is apparent that more could be done by all levels of government - the Congress, the State and the local Board of Education to generate revenues for the education of children with handicapping conditions. A shortage of funds should never be allowed to prejudice the case for necessary services or to create antagonisms between populations of children, all of whom deserve the very best we can provide.

APPENDIX A: THE PROS AND CONS OF THREE STATE FUNDING FORMULAS

Next spring the New York State Legislature will be faced with major revisions of the state school finance program including excess cost aid. It should be clear from this critique that the present excess cost formula is quite inadequate. There are other methods of determining the allocation of state aid. Basically the many variations in state funding can be divided into three types of reimbursement: per pupil system (weightings), resource units and cost units. New York State utilizes a mix of weightings and costs units. (See A & C below.)

A. Per pupil:

New York State has at this time a modified per pupil system because it weights types of handicapped children by their classroom organization. The difficulty with a weighting system is that it easily leads to abuses in the types of programs selected for handicapped children. It is difficult to build program neutrality into a weighting system. If handicapped children in a resource room are weighted less, then the selection of the type of program may be biased. The best interests of the child are not served if he is kept in a self-contained classroom after he is capable of being mainstreamed because he generates more aid in the self-contained classroom.

B. Resource Units:

Some states such as Minnesota, have built a model of funding resources by counting resources and not the children for purposes of funding. Local school districts are reimbursed for a certain number of staff, whether evaluation, instruction, administrative or support. The advantage of a resource model is that: (1) the state can more easily determine what is an excess cost; for example, a resource room teacher can be counted as complete excess cost above

and beyond the regular cost of a classroom; (2) the State has a clear understanding of how state dollars are actually being spent. The disadvantage of such a system is that the state is placed in the position of endless demand. Minnesota has sought controls over this funding formula by building in a ceiling; that is, the state pays only 63% of the cost of most personnel connected to programs for the handicapped. Certainly strict ceilings need to be established if such a formula is used.

C. Costs Units:

New York State has a modified cost system (per pupil) in which local school districts receive part of the excess cost of educating handicapped children. The major problem with this type of formula is that there must be an accounting system in place that firmly establishes what are excess costs. As we have seen earlier this is not occured in New York State; rather, New York State is using averages for its excess cost which creates a bias against high wealth districts.

It is unfair for New York State to retain an excess cost formula that is detrimental to the City. Either the State must create a better accounting system to truly identify school districts' excess costs for educating handicapped children or the state should explore other models of reimbursement.

Appendix B: Revenues

DSE's Revenues - FY80 to FY81
(Millions)

Revenues	FY80	FY81	$ Change	% Change
Tax Levy [1]	$170.46	$250.55	+$80.09	46.98%
State Aid [2]	125.13	137.1	+ 11.97	9.57%
Federal Aid [3]	32.38	34.01	+ 1.63	5.03%
Capital[4]	3.48	--		--
Intra-City[5]	--	3.68		--
Total:	$333.45	$425.34	+$91.9	27.56%

1) Tax Levy is arrived at by deduction:

Revenues	FY80	FY81
State Aid	$125.1	$137.1
Capital	3.5	--
Intra-City	--	3.68
	$128.6	$140.78
Total budget	$219.9	$290.53
minus	- 128.6	- 140.78
	$ 91.3	$149.75
plus Fringe,Pension (40% of tax levy)	$ 79.16	$100.80
Total tax levy	$170.46	$250.55

2) Board of Education, Bureau of State Financial Aid, 11/80.
State aid is listed in Table 12. State reimbursable's programs excluded.
3) Office of Funded Programs, DSE: total includes EHA Part B Title 1, and VEA, & PL 89-313.
4) Total revenue does not include transportation, Part B capital revenue taken from Mayor's Executive Budget for FY81.
5) Transfer of funds from DMH.

Appendix B: Expenditures

DSE's Expenditures - FY 1980 and FY 1981
(Millions)

Expenditures	FY80	FY81	
PS	$197.9	$251.99	
OTPS	22.0	38.54	1
	$219.9	$290.53	
Fringe, Pension 40% of PS	79.16	100.80	2
Reimbursable (Federal)	32.4	34.1	3
Total Expenditure	$331.46	$425.43	

1) The FY81 adopted budget for DSE is $290,531,461. The final audited statement for FY80 gives $219.9 million.
2) Both OMB and BE agree that 40% of the PS is a reasonable calculation for fringe and pension.
3) Office of Funded Programs of DSE; total includes EHA, Title I, PL 89-313 & VEA, 1/26/81. All state reimbursable expenditure are excluded.

These expenditure figures do not include transportation.

APPENDIX C

New York City's Handicapped Student Population
as reported to the State
(PHC 1, from FY 76-81, ages 3-21)

Category	75-76[a]	76-77	77-78	78-79	79-80	80-81
Retarded	12,418	13,329	12,037	10,774	11,687	11,442
Emotionally Disturbed	12,414	14,709	14,958	13,906	18,669	21,110
Physically Handicapped	11,019	15,913	19,600	25,830	26,234	31,160
Speech/Severe	N/A	1,919	1,516	1,040	1,391	598
Learning Disabled				627	6,168	11,788
Other (Readiness, Pre-Placement)	855					
TOTALS[b]	39,654	48,103	50,246	54,149	66,447	79,125

a. Bernard Gifford "The Cost of Educating Handicapped Pupils in New York City," Board of Education of the City of New York, January 1977, pp. 8, 10, 11.

b. The category of "speech impaired other" has been taken out in order to make the numbers comparable.

c. The numbers of handicapped will differ slightly from the text because the State has different reporting dates.